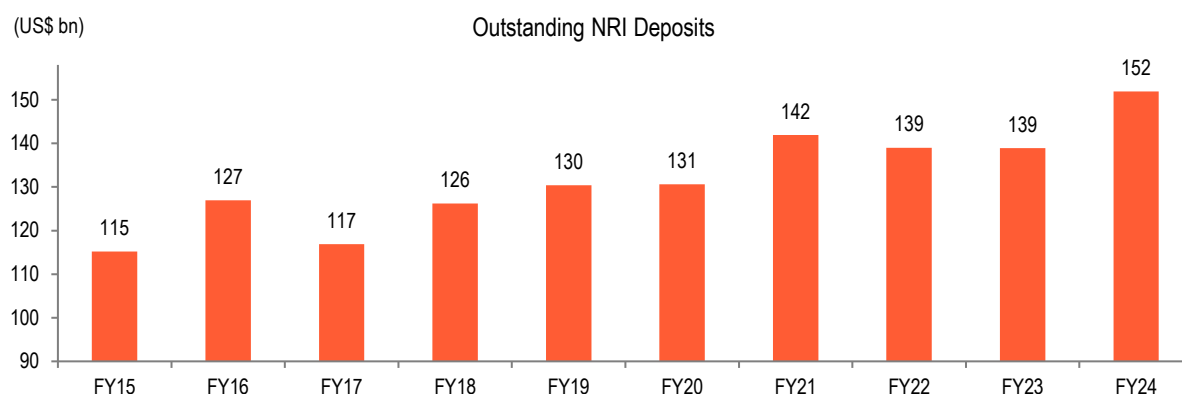


The higher growth in NRI deposits has been in tandem with faster pace of increase in aggregate deposits. Its share in the pie currently stands at 6.2%. The 10-Years CAGR of NRI deposits stood at 7.2% while for aggregate deposits was 10.2%. Within NRI deposits, share of FCNR (B) deposits has picked up considerably. Shares of NRO deposits has also increased. Interest rate differential and an insulated domestic economy from global disturbances may be the reason for the same.

How have NRI deposits moved?

The movement of NRI deposits is interesting. During Covid period, it has picked up sharply to US\$ 142bn from US\$ 131bn despite a softer interest rate regime globally. Bank deposits probably have been the preferred choice of savings during that uncertain environment where other asset classes exhibited considerable volatility. Apart from this, increase in precautionary savings globally (Gross savings rate to GDP of world rose to 27.1% from 25.8% in the same period, as per World Bank data), has also led to repatriation of savings in terms of bank deposits. However, with normalisation of economic activity, some correction was witnessed in NRI deposits in FY22 and FY23. Again, in FY24 (provisional figures), considerable momentum was visible. A possible explanation could be a more calibrated approach of domestic central bank compared to global central banks, where the rhetoric of interest rates has been far more volatile.

Fig 1: NRI deposits have picked pace



Source: CEIC, Bank of Baroda Research

NRI deposits vis a vis aggregate deposits:

NRI deposits in rupee terms have grown at a CAGR of 7.2% in the past 10-Year while aggregate deposits have grown at a much sharper pace of 10.2% during the same period supplemented by higher domestic resources. The rupee had depreciated by 3.2% during this period.

The last 5-Year CAGR of NRI deposits has been 6.6% while for deposits again it recorded a double-digit growth of 10.1%. *Notably, Non-Resident Ordinary Rupee Accounts (NRO accounts) have grown at a far sharper pace. The 10-Year CAGR for the same stood at 15.2% higher than the 10-Year CAGR of aggregate deposits.* There may be several reasons of the same ranging from ease of liquidity, interest rate differential and repatriation issues. On the other hand, Foreign Currency Non-Resident Accounts-FCNR(B) has witnessed volatility.

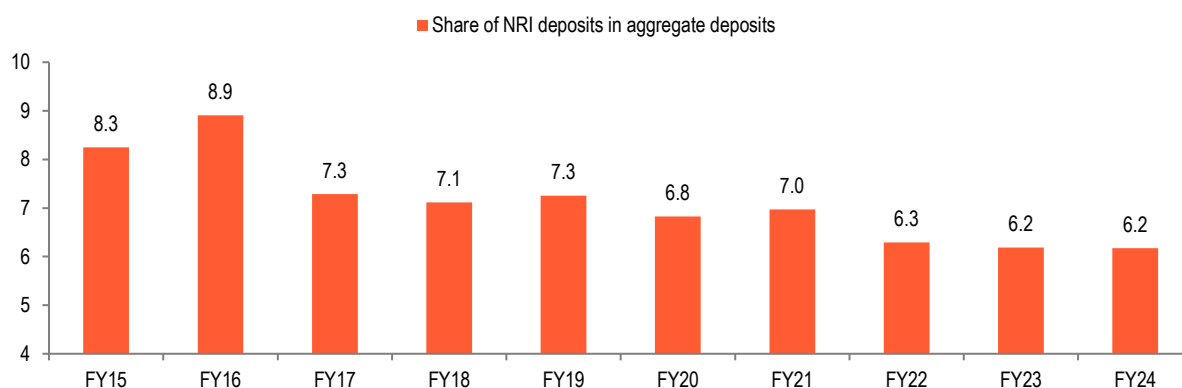
Table 2: NRO segment growing at a faster pace

Growth rate (%)	Aggregate deposits	NRI Deposits	Foreign Currency Non-Resident Accounts-FCNR(B)	Non-Resident External Rupee Accounts-NR (E) RA	Non-Resident Ordinary Rupee Accounts-NRO
CAGR-10Y	10.2	7.2	-1.7	9.8	15.2
CAGR-5Y	10.1	6.6	5.6	4.9	16.4

Source: MOSPI, Bank of Baroda Research, Note: NRI deposits for the FY are converted in rupee terms before calculating CAGR for an even comparison with aggregate deposits denominated in domestic currency, for exchange rate, average for the fiscal is used.

Thus, on account of faster pace of increase in aggregate deposits (as seen in the CAGR data as well), the shares of *NRI deposits have flattened at 6.2%*. However, with start of the rate cut cycle by Fed and hence a favourable interest rate differential for India, there is scope for the share to further increase.

Fig 2: Shares have flatlined due to faster pace of increase in aggregate deposits

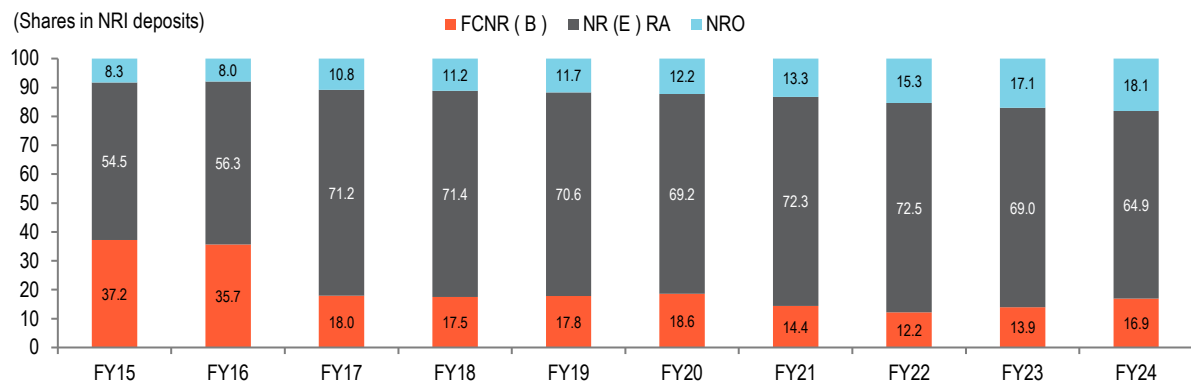


Source: CEIC, Bank of Baroda Research, Note: FY24 figures are provisional, for FY24 aggregate deposits exclude merger

How shares of different components of NRI deposits have evolved?

Some shift in shares is witnessed in the past few years. *Share of NRO deposits has consistently risen*, especially post Covid period. NRO account basically handles domestic revenue. Thus, an insulated domestic economy compared to global counterparts in terms of growth and policy dynamics could explain this rise. FCNR (B) deposits have picked up considerably since FY22. Higher remittance flows could be a possible explanation of the same. (Note: Here the higher share of FCNR (B) in NRI deposits seen during FY15 and FY16, is a one-off event, on account of Central Bank’s measure to support domestic currency). However, the share of FCNR (B) deposits is still lower than seen during pre-Covid period. NR (E)RA have exhibited some volatility. This is basically used by non-residents for transferring foreign profits to India. Muted growth in the global space, stickier inflation and an elevated borrowing cost might have impacted profitability of companies which is reflected in the falling share of these deposits.

Fig 3: Shares of different components of NRI deposits



Source: CEIC, Bank of Baroda Research, Note: FY24 figures are provisional, for FY24 aggregate deposits exclude merger

NRI deposits are useful both from the point of view of augmenting aggregate deposits of banks as well as bringing in foreign exchange. The flow of funds will depend a lot on interest rate differentials and remittances into the country. Based on the trends witnessed in the last decade, a growth rate of 9-10% in NRI deposits could be expected in the next five years or so which will keep it aligned with growth in overall deposits which would be in the region of 12-13% and rupee depreciation of 2-3% per annum

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